MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017 / 2018 SESSION

DEC5018 – MICROECONOMICS

(Diploma Students Only)

21 OCTOBER 2017
9.00 am – 11.00 am
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 15 pages with 3 sections.
2. For Section A, shade your answer on OMR sheet provided.
3. For Section B & C, write your answer in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS (each question carries 1.5 marks). Answers for this section should be shaded on the OMR form.

1. Fundamental economic problems basically arise from _____.

   A. our wants exceeding our scarce resources
   B. the unequal distribution of income
   C. turmoil in the stock market
   D. the fact that society has more than it needs

2. Why are people buying more apples and fewer strawberries? This is an example of a _____.

   A. macroeconomics
   B. microeconomics
   C. economics
   D. finance

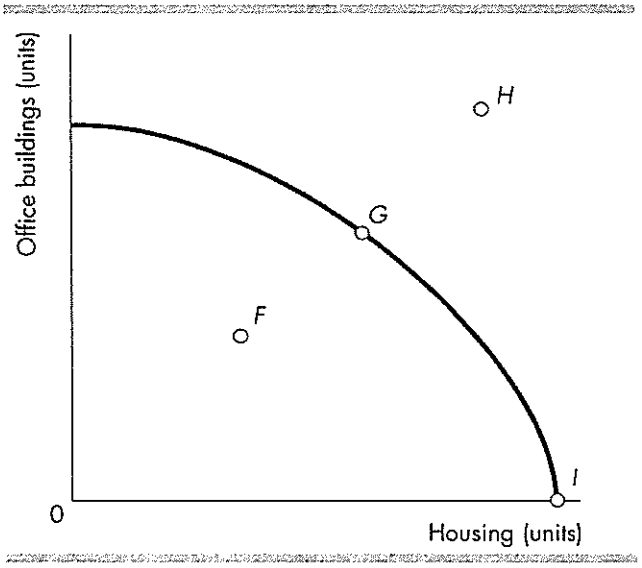

Figure 1

3. Which point in Figure 1 shows that resources to produce office buildings and housing are being misallocated, unused, or both?

   A. Point *G*.
   B. Point *H*.
   C. Point *I*.
   D. Point *F*.

Continued...

4. Moving from one point on the production possibilities frontier to another _____.

   A. involves a tradeoff but does not incur an opportunity cost
   B. involves an opportunity cost but no tradeoff
   C. involves a tradeoff and incurs an opportunity cost
   D. involves no tradeoff and no opportunity cost incur

5. The "law of demand" states that, other thing remaining the same, the higher _____.

   A. the price of a good, the lower is the demand for this good
   B. the price of a good, the lower is the quantity demanded
   C. consumers' incomes, the greater is the demand
   D. the price of a good, the higher is the quantity demanded

6. If the demand for digital cameras increases when consumers' income rise, then digital cameras are _____.

   A. an inferior good
   B. a substitute good for video cameras
   C. a complement to video cameras
   D. a normal good

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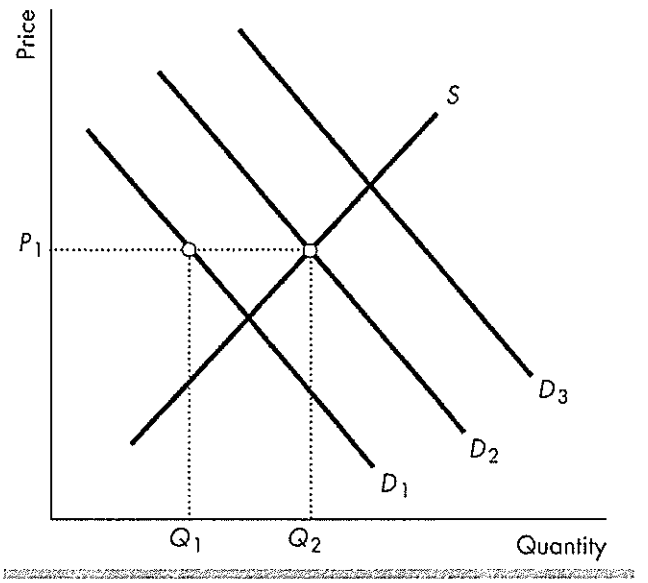

Figure 2

7. Based on Figure 2, if the demand curve is D_2 then _____.

   A. the equilibrium price will be P_1 and the equilibrium quantity will be Q_2
   B. the equilibrium price will be P_1 and the equilibrium quantity will be Q_1
   C. there will be a shortage equal to Q_2 - Q_1
   D. an increase in price will shift the demand curve to D_3

8. To say that "supply increases" for any factor others than changes in price itself, means there is a _____.

   A. movement rightward along a supply curve
   B. shift rightward in the supply curve
   C. movement leftward along a supply curve
   D. shift leftward in the supply curve

9. Demand is income elastic if _____.

   A. a large percentage increase in income results in a small percentage increase in quantity demanded
   B. an increase in income does not affect the quantity demanded
   C. the good in question has close substitutes
   D. a small percentage increase in income results in a large percentage increase in quantity demanded

Continued...

10. If the income elasticity of demand for corn is 0.5, then as income increases _____.

A. the demand for corn will increase
B. the demand for corn will decrease
C. corn will prove to be an inferior good
D. the supply curve of corn will shift leftward

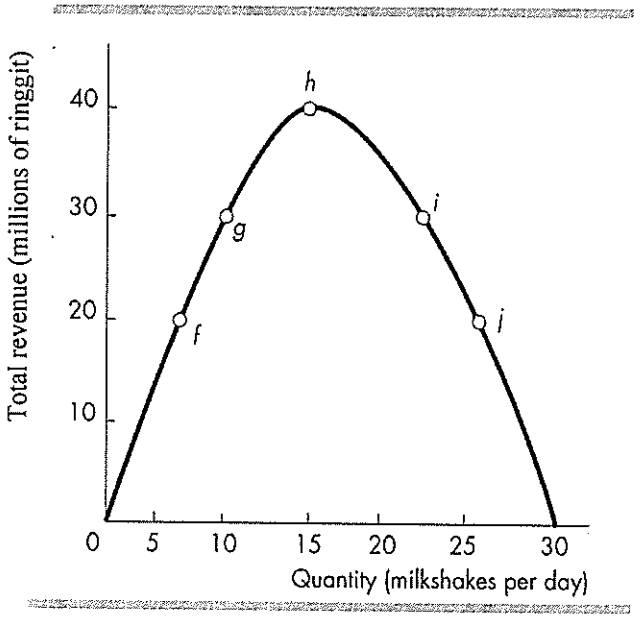

Figure 3

11. Figure 3 represents the behavior of total revenue as price falls along a straight-line demand curve. What is the price elasticity of demand if total revenue is given by point *f*?

A. Demand is elastic.
B. Demand is inelastic.
C. Demand is unit elastic.
D. Demand is perfectly elastic.

12. Which goods have more elastic demands?

A. Goods which are necessities.
B. Goods with few substitutes.
C. Goods with many substitutes.
D. Goods whose purchase represents a small percentage of income.

Continued...

13. A measure of all the benefit you get from all the coffee you consume is your _____.

A. marginal utility of coffee
B. total utility from coffee
C. marginal utility per dollar spent on coffee
D. marginal utility per dollar spent on coffee when you are in your consumer equilibrium

14. Marginal utility is the _____.

A. total satisfaction that a person gets from the consumption of all of the units of a good consumed
B. maximum price that a consumer is willing to pay for an additional unit of a good
C. change in satisfaction that results from a one-unit increase in the quantity of a good consumed
D. additional cost to a consumer when an additional unit of a good is consumed

15. Manesha is a college student who likes to buy only two goods: Coke and Pepsi. Her utility for these two goods depends on _____.

I. Manesha's preferences for Coke and Pepsi
II. The quantity of Coke and Pepsi
III. Manesha's income

A. I only.
B. II only.
C. I and II.
D. I and III.

Continued...

Consumption possibility	Video games (quantity)	Baseball cards (quantity)
A	10	0
B	8	1
C	6	2
D	4	3
E	2	4
F	0	5

Table 1

16. Hassan's consumption possibilities are listed in Table 1. Hassan has two goods that he consumes this week. He can choose to go to the arcade and play video games or he can purchase baseball cards. The price of each video game is RM0.50 and each pack of baseball cards is RM1. Hassan will spend all his income this week on these two goods. What is the amount of Hassan's income?

A. RM15.
B. RM10.
C. RM8.
D. RM5.

17. Which of the following is part of a firm's opportunity costs?

I. Wages.
II. Utility costs.
III. Interest on a bank loan.
IV. Interest foregone on funds used to buy capital equipment.

A. I and II.
B. III and IV.
C. I, II, and III.
D. I, II, III and IV.

18. The difference between the market price of a new car used by a firm and the market price of the same car one year later is known as _____.

A. physical depreciation
B. economic deterioration
C. economic depreciation
D. physical deterioration

Continued...

19. The short run is a time frame in which _____.

A. the quantities of all resources can be varied
B. the quantities of all resources are fixed
C. the quantities of some resources are fixed and the quantities of other resources can be varied
D. all costs are sunk costs

20. Marginal cost _____ as the quantity produced is increased.

A. first increases and then decreases
B. first decreases and then increases
C. always increases
D. always decreases

21. In perfect competition, the product of a single firm _____.

A. has many perfect substitutes produced by other firms
B. has many perfect complements produced by other firms
C. is sold under many differing brand names
D. is sold to different customers at different prices

22. In perfect competition, restrictions on entry into an industry _____.

A. apply to both capital and labor
B. apply to labor but not to capital
C. do not exist
D. apply to capital but not to labor

23. In a perfectly competitive industry, the demand for a single firm's product is perfectly elastic _____.

A. because this firm is a price maker
B. because the consumer has perfect knowledge on price & quality of all products.
C. only in the long run
D. because there are many buyers in this market

Continued...

24. For a perfectly competitive firm, no matter how much the firm produces, price always equals _____.

A. marginal product
B. average total cost
C. minimum average total cost
D. marginal revenue

25. Which of the following can create a monopoly?

I. High prices.
II. Public franchise.
III. Patent.
IV. Government license.

A. I and II.
B. I and III.
C. I, II, and III.
D. II, III, and IV.

26. Which of the following is a characteristic of monopoly?

A. The firm faces competition from many other firms.
B. The firm produces a product that has many close substitutes.
C. There are barriers to enter the market.
D. The firm's demand curve is perfectly elastic.

27. All of the following are examples of price discrimination **EXCEPT** _____.

A. buy-one-get-one-free offers
B. "buy now, pay later" payment options
C. "early bird specials" at a restaurant
D. lower ticket prices for movie in cinema

28. For a single-price monopolist, price is _____ marginal revenue.

A. less than
B. business barriers
C. greater than
D. less than or equal to but never more than

Continued...

29. Firms in monopolistic competition charge prices that are _____ those of the other firms in the market.

A. very different from
B. close to
C. the same as
D. completely unrelated to

30. Which of the following best explains why monopolistically competitive firms face a downward sloping demand curve while perfectly competitive firms do not?

A. Monopolistically competitive industries have only a few firms.
B. Monopolistically competitive firms have barriers to entry.
C. Monopolistically competitive firms sell a differentiated good.
D. Only industries with free entry and exit have firms that face horizontal demand curves.

31. Product differentiation exists within an industry if _____.

A. there are close but not perfect substitutes for a product
B. the firm can sell all it wants at the chosen price
C. there are no substitutes for a product
D. there is a monopoly

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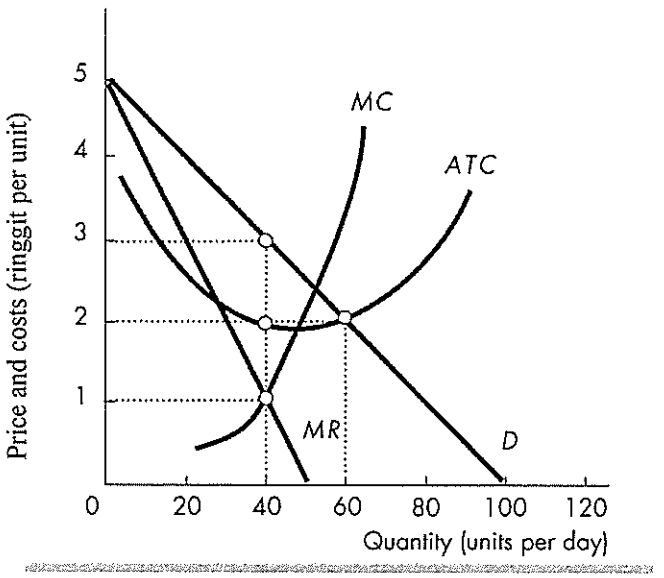

Figure 4

32. Based on Figure 4, if the firm is in monopolistic competition, it will produce _____.

A. 40 units
B. 60 units
C. between 61 and 99 units
D. 100 units

33. When producers agree to restrict output, raise the price, and increase profits, the agreement is called _____.

A. a pricing agreement
B. an oligopoly agreement
C. a collusive agreement
D. a monopoly agreement

34. Game theory is a tool for studying _____.

A. strategic behavior
B. rational dilemmas
C. payoff dilemmas
D. Nash behavior

Continued...

35. The distinguishing features of oligopoly are _____ and a _____ in the industry.

A. barriers to entry; large number of firms
B. no barriers to entry; few firms
C. no barriers to entry; large number of firms
D. barriers to entry; few firms

36. In _____ market structure, a firm's output depends _____.

A. an oligopoly; only on its own marginal revenue and marginal cost curves
B. an oligopoly; in part on its competitors' price and quantity decisions
C. a monopolistically competitive; only on its marginal revenue curve
D. a monopolistically competitive; in part on its competitors' price and quantity decisions

37. The demand for labor is a derived demand because it is derived from _____.

A. the supply of labor
B. union pressure
C. the demand for the output the labor produces
D. natural law

38. The value of marginal product of labor is the change in _____.

A. total revenue from hiring one more worker
B. profit from hiring one more worker
C. output from hiring one more worker
D. profit from producing one more unit of output

39. Which of the following are four factors of production?

A. Labor, capital, land, money.
B. Labor, capital, land, entrepreneurship.
C. Labor, money, land, entrepreneurship.
D. Labor, capital, money, entrepreneurship.

Continued...

40. As a competitive firm hires increasing amounts of labor, the value of marginal product of labor _____.

A. decreases
B. increases
C. remains constant
D. decreases then increases

[TOTAL 60 MARKS]

Continued...

SECTION B: FILL IN THE BLANKS. (each question carries 1 mark)
Answer ALL questions. Answers should be written on the answer booklet provided.

Barrier to entry	**Larger**	**Real income**	**Substitute**	**Break-even**
Interdependence	**Price**	**Entrepreneurship**	**Principal-agent problem**	**Technology**

41. The human resource that organizes land, labor, and capital is _____.

42. A _____ in production for a good is another good that can be produced using the same resources.

43. The greater the proportion of income consumers spend on a good, the _____ is the elasticity of demand for that good.

44. A household's _____ is the income expressed as a quantity of goods the household can afford to buy.

45. _____ is the problem of devising compensation rules that induce an agent to act in the best interests of a principal.

46. In long-run equilibrium for perfect competition, firms _____because firms can enter or exit the market.

47. A constraint that protects a firm from potential competitors is called _____.

48. Product differentiation enables firms to compete in three areas; quality, _____, and marketing.

49. In oligopoly market has only a few firms, they are _____ and face a temptation to cooperate.

50. In the market of factor of production, firm's demand for labor depends on the price of firm's output, the price of other factors of production and _____.

[TOTAL 10 MARKS]

Continued...

SECTION C: STRUCTURED QUESTIONS
Answer ALL questions. Answers should be written on the answer booklet provided.

QUESTION 1

Allow competition, not create more monopolies

A few days ago, MyEG Services Bhd was given the monopoly to handle the online system for foreign workers' permit renewal. Now it is Bestinet Sdn Bhd given the monopoly to handle applications for foreign workers' quotas, temporary work permits, medical tests and insurance, among others.

Economically, monopolies are bad for efficiency and consumer welfare except in "natural monopoly" situations, like for example, water and electricity supplies and toll roads. Even for natural monopolies, proper regulations and caps on profit should rightly be monitored and imposed by the government.

As far as possible, we should always allow more players and competition to thrive. This is one sure way to increase efficiency, reduce collusion, and curb profiteering.

Malaysia has a functioning market economy. We should allow competition to unleash its full potential. Competition is best assured if we allow more players to participate.

(The article is adapted from: T K Chua FMT, 18th January 2015)

a) List **TWO (2)** company that was given the monopoly status in the article. (2 marks)

b) In your opinion, why do you think '*monopolies are bad for efficiency and consumer welfare*'? (2 marks)

c) List **THREE (3)** reasons we should always allow more players and competition for the market to thrive. (3 marks)

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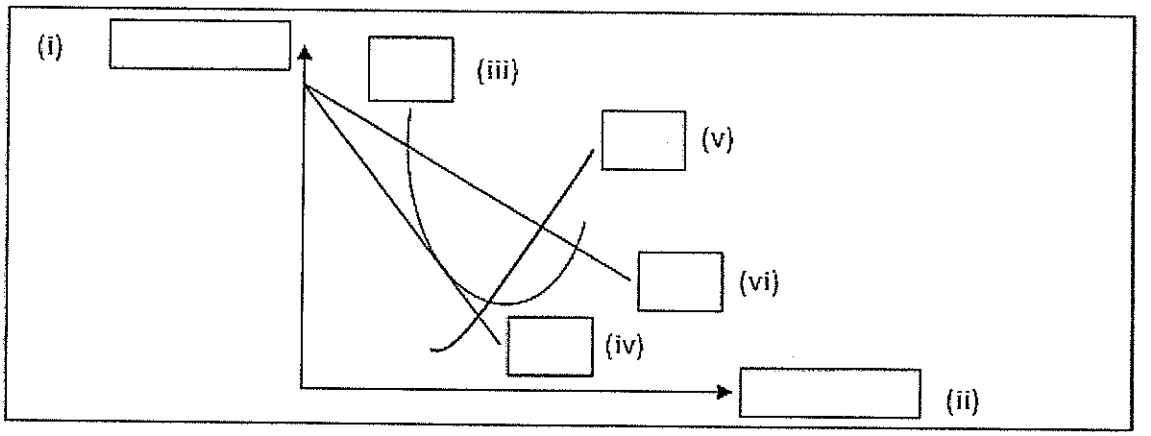
d) Complete the diagram below to illustrate monopoly market and draw the economic profit for a single price monopoly when MR=MC. (8 marks)



[TOTAL 15 MARKS]

QUESTION 2

a) The shape of the indifference curves always reveals interaction of different kind of good and services, the pairs of good might come in different form such as perfect substitutes, perfect complements or substitutes, and complements.

Draw and explain indifference curve for each of the following pairs of good.

i) Right gloves and left gloves. (3 marks)
ii) Coca-Cola and Pepsi. (3 marks)

b) In a general economic system, a firm organizes production by combining and coordinating productive resources using a mixture of two systems.

Explain the differences between a command system and an incentive system. (4 marks)

c) The heavy rainfall in monsoon season destroys the strawberry crop at Cameron Highland, therefore the price of strawberry rises from RM4 to RM6 per box, and the quantity demanded decreases from 1,000 to 600 boxes per week.

i) Calculate the price elasticity of demand over this price range. (3 marks)
ii) Explain the price elasticity of demand for strawberries from answer (c)(i). (2 marks)

[TOTAL 15 MARKS]

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